

VZCZCXRO8593  
RR RUEHGI RUEHTRO  
DE RUEHNJ #0908/01 1851139  
ZNR UUUUU ZZH  
R 041139Z JUL 06  
FM AMEMBASSY NDJAMENA  
TO RUEHC/SECSTATE WASHDC 4017  
INFO RUEHUJA/AMEMBASSY ABUJA 1203  
RUEHDS/AMEMBASSY ADDIS ABABA 0817  
RUEHBP/AMEMBASSY BAMAKO 0683  
RUEHGI/AMEMBASSY BANGUI 1206  
RUEHDK/AMEMBASSY DAKAR 1119  
RUEHKH/AMEMBASSY KHARTOUM 0268  
RUEHLC/AMEMBASSY LIBREVILLE 0881  
RUEHLO/AMEMBASSY LONDON 1470  
RUEHNR/AMEMBASSY NAIROBI 0597  
RUEHNM/AMEMBASSY NIAMEY 2738  
RUEHFR/AMEMBASSY PARIS 1867  
RUEHYD/AMEMBASSY YAOUNDE 1263  
RUEHGV/USMISSION GENEVA 0761  
RUCNDT/USMISSION USUN NEW YORK 0824  
RUEHBS/USEU BRUSSELS  
RUEHTRO/AMEMBASSY TRIPOLI 0262  
RUEATRS/DEPT OF TREASURY WASHINGTON DC

UNCLAS SECTION 01 OF 03 NDJAMENA 000908

SIPDIS

SENSITIVE  
SIPDIS

DEPT. FOR AF, AFC, DRL, PRM, S/CRS  
LONDON AND PARIS FOR AFRICA WATCHER  
NAIROBI FOR OFDA  
TREASURY FOR OUSED

E.O. 12958: N/A

TAGS: [EFIN](#) [ECON](#) [EAID](#) [EPET](#) [PGOV](#) [PREL](#) [KDEM](#) [KCRS](#) [CD](#)

SUBJECT: CHAD: OIL REVENUE MANAGEMENT AND THE PRICE OF  
REGIME SURVIVAL

REF: NDJAMENA 893

-----  
SUMMARY:  
-----

¶1. (SBU) The ten-day intensive talks between a Multi-Donor Mission and the Government of Chad (GOC) ended June 29. A good start was made on revisions to Chad's Poverty Reduction Strategy Paper (PRSP), and on defining urgent actions needed to improve public finance management. The World Bank's measure of success for talks over the next three months to September 26 will be progress made on reaching an agreement on oil revenue management. World Bank negotiating leverage -- a requirement for automatic servicing of its IBRD lending through the oil revenue management scheme -- could disappear under a windfall of oil tax and customs duties revenues in ¶2007. The GOC will be weighing its need for international approval and development assistance against its survival instinct in the face of armed rebellions when determining the level of transparency it will accept in the control of Chad's oil wealth. END SUMMARY.

-----  
ROYALTIES, DIVIDENDS, TAXES  
ALL FLOWING AGAIN  
-----

¶2. (SBU) World Bank team leader Marie Francoise Marie-Nelly (Program Manager -- Chad-Cameroon Pipeline Cluster) briefed Ambassador June 30 on the outcomes of the World Bank/IMF-led Multi-Donor Mission to Chad to discuss a global agreement on public finance reform and poverty reduction strategy revisions. Marie-Nelly confirmed that, in keeping with the Bank's interim agreement with the Government of Chad (GOC), the first tranche of back payments of royalties from the

frozen CitiBank "transit account" had been approved for disbursement. This meant that the GOC received on or about July 1 USD 56.7 million in un-frozen royalties and share dividends, and June royalties and dividends. In addition, the GOC collected a quarterly payment of USD 14 million in taxes and customs duties (not controlled through the World Bank-GOC oil revenue management program), for a total end-June lump-sum incomes received of USD 70.7 million.

13. (SBU) The Bank's team leader said that further un-frozen royalty and dividend back payment disbursements are scheduled for July 26 and August 28, amounting to roughly USD 40 million per tranche. She reported that the "transit account" currently held roughly USD 100 million in frozen royalties/dividends, and that the petroleum consortium would deposit another USD 20 million to the account on July 22. A last tranche of unfrozen back-payments is to be made on/about 26 September -- the current deadline for the Bank and GOC to reach a final, "global" agreement on oil revenue management.

14. (SBU) Marie-Nelly stressed that, during this three month negotiating period, the "transit account" remains technically frozen. However, the Bank has told CitiBank to proceed with disbursement of successive back-payment tranches unless otherwise instructed. She noted that there were no specific criteria or benchmarks of GOC performance governing the Bank's disbursement decision, which would be based on an assessment of GOC good faith in negotiating toward an acceptable oil revenue management program.

-----  
LITTLE LEVERAGE LEFT

NDJAMENA 00000908 002 OF 003

-----  
15. (SBU) Marie-Nelly noted that discussions with the GOC were firmly rooted in achieving the goals of (a) ensuring that oil revenues are devoted to poverty reduction, and (b) building commitment within the GOC to sound public finance management.

However, the Bank's leverage in the talks was based at least in part on its own requirement that the IBRD (non-concessional) portion of its lending to Chad for oil exploitation be serviced through the oil revenues management program.

16. (SBU) She admitted that this leverage might not be especially strong, given the financial flows from un-captured tax and customs duties streams. These were set annually, looking backward to reflect the price of oil for the previous year, and collected quarterly. For 2006, the amount received per quarter, reflecting the price of oil in 2005, was set at USD 14 million. The Bank, Fund, and donors have been well aware for some time that, given the price of oil for 2006 had averaged much more than it had in 2005, Chad's tax and customs duties collections will skyrocket in 2007.

17. (SBU) The Bank will continue to insist that its lending be automatically serviced from royalties through a Bank-controlled off-shore transit account as part of any deal with the GOC on a global agreement for oil revenue management. The sanction for not achieving a global agreement would be a continued freeze on the transit account, as well as putting other Bank programs in jeopardy based on what would essentially be GOC intent to default on the IBRD loan.

18. (SBU) Marie-Nelly pointed out, however, that the GOC might simply choose to eliminate this Bank negotiating leverage by pre-paying the IBRD loan in full -- at a cost of "only" USD 32 million. Because the European Investment Bank's (EIB) lending for the oil project is also serviced through the transit account, the GOC would likely have to pre-pay that as well, to the tune of roughly another USD 20 million. Such a move would certainly not be seen as a wise use of resources, but given the large tax and customs duties receipts expected

in 2007, the GOC might consider it money well spent if it cleared away international financial institution obstacles to unfettered GOC control of Chadian oil revenues.

-----  
OTHER THAN THAT, GOOD  
PROGRESS IS POSSIBLE  
-----

¶9. (SBU) Marie-Nelly expressed considerable optimism that outside the debate over oil revenue control there would be a high probability for good progress over the next three months. She reported that, on revisions to the PRSP, a work program calendar had been established for the period through June 2007, and a technical budget approved of USD 800 thousand, of which USD 200 thousand from the GOC. Discussions on the Plan of Action for Modernizing Public Finances (PAMFIP) had also made progress, with a set of urgent actions defined, and a partial implementation calendar set. Here, however, Marie-Nelly noted the interface between overall public finance management and the oil revenue question, pointing out that there is a need for much more spending discipline in the budget. She said that the Bank's team had worked hard during the Multi-Donor Mission to bring the GOC technical experts to the same starting point on seeking to equilibrate "lumpy" revenue streams and "smooth"

NDJAMENA 00000908 003 OF 003

spending programs. Especially important was the idea that planning had to be done now for expected decline in revenues in ten years. Marie-Nelly said that GOC respect of a cash-flow plan over the next few months would be a key short-term measure of its broad political will to manage its financial resources for the medium term.

-----  
COMMENT  
-----

¶10. (SBU) Post's participation in several days of the Multi-Donor Mission revealed an essential dichotomy in the GOC approach to the discussions, and preparations for the next three months of talks. On one hand, GOC technical staff, and some political-level interlocutors, have a clear understanding of the stakes in play in these negotiations. They see that Chad's hopes for poverty reduction, financial future, and international reputation are on the line. On the other hand, when the question of who should control the financial flows from Chad's oil wealth is discussed, there appears in the GOC team a combination of economic nationalism, and fear for the immediate survivability of the Deby regime in the face of armed rebellions. Development plans appear to quickly slide to second tier priority next to the need for sufficient ready cash to pay for arms, logistics -- and friends.

¶11. (SBU) In a scenario where talks with the Bank are relatively constructive through at least early September, and then sour as the deadline for an agreement approaches, Chad's cash flow may be relatively thin through fourth quarter 2006. The GOC will nonetheless have pulled in by end-August some USD 120 million in unfrozen royalty and dividend payments. Were the talks with the Bank to then break down and the Bank refuse to allow a resumption of regular royalty and dividend payments, the GOC would still collect roughly USD 28 million in taxes and customs duties to the end of the calendar year. First quarter 2007 might be pretty lean; and then, the first quarterly payment of taxes and customs duties would arrive, newly calculated on the basis of 2006 oil prices.  
END COMMENT.

¶12. (U) Tripoli Minimize Considered.  
WALL